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NATIONAL INTELLIGENCE DAILY CABLE

Friday April 22, 1977

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National Intelligence Daily Cable for Friday, April 22, 1977.

The NID Cable is for the purpose of informing senior US officials.

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OPEC: July Price Hike Likely

25X1 [] //We think it is increasingly likely that 11 of the 13 members of the Organization of Petroleum Exporting Countries will follow through on their plan to raise the price of their oil 5 percent on July 1. Last December, the 11 states voted to raise prices 10 percent on January 1, and an additional 5 percent on July 1. Saudi Arabia and the United Arab Emirates voted for a one-time 5-percent increase. We believe the possibility of a compromise between the 11 and the Saudis is remote.//

25X1 [] If the 11 states go ahead with the July increase, the average price of OPEC crude would be at least 11 percent higher than it was in December. The price of non-OPEC oil would tend to rise by nearly the same amount.

25X1 [] //Demand for OPEC oil is projected at 32 million barrels per day in the second half of 1977. Given Saudi productive capacity limits, the 11 OPEC members should have a combined output of slightly more than 19 million barrels per day in this period, about 5 percent below their annual average last year. The proposed price increase probably would have no effect on this production level even though it widens the price disparity with Saudi crude. The anticipated softening of demand for OPEC crude as Alaskan, North Sea, and Saudi supplies gradually expand will have an impact on considerations later this year for prices in 1978.//

25X1 [] //Saudi Arabia is gambling that the market eventually will force the majority of cartel states into line with them on oil prices. The 11 states will have much greater difficulty maintaining their price position in 1978 unless world oil demand grows faster than expected. The Saudis appear content to wait it out and have rejected offers by the 11 to drop the increase planned for July and compromise at 10 percent, or possibly less, for the remainder of 1977.//

25X1 [] //Iran continues to call for automatic implementation of the 5-percent price hike in July. Iran's position is buttressed by Tehran's ability to increase production--which reportedly totaled nearly 6.3 million barrels per day last month, indicating that the market is strong enough to sustain higher prices.

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[REDACTED] //Although we believe they will go along, other states are less enthusiastic. Kuwait prefers a compromise. Indonesia, Venezuela, and Qatar also hope for accommodation with Saudi Arabia, but realize this is unlikely in the short run. The majority may call an extraordinary OPEC meeting before July, but few believe it would do more than exacerbate the conflict.// [REDACTED]

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ZAIRE: Situation Report

25X1 [] *President Mobutu's short-term prospects have been bolstered by Moroccan-backed advances against the Katangan invaders in Shaba Region and by a government-orchestrated rally in the capital.*

25X1 [] The Zairian-Moroccan westward advance is considerably more modest than the "general offensive" that the government was recently talking about. It nevertheless represents a marked change from the consistent retreat before the Moroccans arrived.

25X1 [] Kinshasa media have had a field day over the display at a rally attended by Mobutu on Wednesday of the first two Katangan prisoners captured since the invasion began on March 8. Under the circumstances, the prisoners' allegation that Cubans accompanied them from Angola but later died in battle or went away is unconvincing. At the same rally, Mobutu denounced the USSR as the sworn enemy of Zaire and the power behind the invasion.

25X1 [] The US embassy in Kinshasa yesterday noted Mobutu's renewed ability to turn out a crowd and win applause--indications that his continuing references to the "Red menace" are

beginning to pay off. With the Katangan advance stopped for now and with virtually no moderate candidates available to form a new government, Mobutu may gain more support by posing the political choice of "Mobutu or communism."

25X1 [] While the duration of the Moroccans' stay will be determined by King Hassan, and could be extended for political reasons, Rabat clearly wants to avoid prolonged involvement in Shaba.

25X1 [] Mediation between Zaire and Angola on a solution to the Shaba conflict has been at a standstill for some days. Next Monday, however, Nigerian Foreign Minister Garba is scheduled to resume his mediation role with new visits to Kinshasa and Luanda.

25X1 [] His efforts so far have achieved little, with the Angolans insisting that other outstanding issues between the two countries be discussed first. As for the Shaba situation, they argued that it only involved Zairians returning to Zaire.

25X1 [] President Mobutu may be less interested in third-party mediation efforts that could possibly involve concessions now that the Katangan advance has been turned around.

Financial Problems

25X1 [] The fighting in Zaire will force the government to seek additional foreign assistance and debt relief to help meet a projected balance-of-payments deficit this year of over \$300 million.

25X1 [] Continued diversion of transport equipment and fuel from the civilian sector to the army will slow production and create losses in export earnings. The government probably will also have to use foreign exchange slated for upgrading the copper mines, thereby cutting into future production.

25X1 [] The government is having difficulty meeting the terms of an International Monetary Fund stabilization plan. The plan calls for strict ceilings on government expenditures, credit expansion, and foreign borrowing. If Zaire fails to conform to the IMF restrictions, it could lose some future installments on an \$84-million loan.

25X1 [] Private bank credits will be difficult to arrange in the unstable political climate. One large foreign bank already has reneged on its agreement last November to raise \$250 million among private lenders for maintenance of essential imports.

25X1 [] The US embassy expects that Zaire will try to re-schedule all principal and interest payments due on foreign debts this year. The payments due to the US or on US-guaranteed

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debt are about \$63 million; almost two thirds relates to Export-Import Bank programs. Zaire also may seek substantially lower interest rates on consolidated debts.

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FRANCE: Giscard's Economic Plan

French President Giscard and his new cabinet met last weekend to work out a 12-month "action plan" for curbing unemployment and inflation. Giscard hopes the plan, which will be presented to parliament next Tuesday, will carry the governing coalition to victory over the left in next year's parliamentary election. Coalition setbacks in recent municipal elections, however, have narrowed the government's maneuvering room.

The President faces a parliament that has been seriously shaken by the municipal election results. It is only too willing to blame coalition losses on the government's economic policies and could spell trouble for Giscard's economic program.

There is only so much Giscard can do without majority parliamentary and public support for his reformist ideas. The municipal election setbacks hit the Gaullists, Giscard's coalition partners, hard and did nothing to improve their already quarrelsome relationship with the government. Some of the Gaullists, who bitterly opposed a capital gains tax enacted last year, were also critical of a government announcement last week that the implementation of portions of that tax would be postponed.

Former prime minister Chirac, the national leader of the Gaullists, remains critical of the government's strategy. His activism, both as party leader and mayor of Paris, will add to the friction between him and the President.

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EAST GERMANY: Dissident Emigrates

The East German regime will probably use the emigration of dissident writer Reiner Kunze to West Germany to show that it has a positive attitude on humanitarian issues.

25X1 [] Kunze is the first prominent East German dissident to leave since song writer Wolf Biermann was expelled last November. East German authorities clearly are happy to see him go and will view his leaving as an indication of the success of their policy of careful harassment, rather than repression, of the dissidents.

25X1 [] Kunze said in a West German interview that he asked to leave, that his emigration application was approved in three days, and that he was permitted to take most personal possessions. He explained that worsening health and increased pressure from East German authorities--but not restrictions on writing--were primarily responsible for his decision to emigrate. He had been removed from the Writers Union and barred from publishing before Biermann was expelled.

25X1 [] For the regime, Kunze's departure both rids the country of a malcontent and serves as an example of its "humane" treatment of dissidents and its "freedom of travel" policies. East German authorities will probably emphasize that Kunze, not they, initiated the emigration proceedings and will point out that he was permitted to leave with family and many of his personal possessions. With an eye on the follow-up this June to the Conference on Security and Cooperation in Europe, the East Germans have also moved to resolve some difficult divided-family cases with the US, the UK, and France.

25X1 [] Kunze's departure will be a blow to the East German dissident community. An East German student with excellent contacts among young writers told embassy officials that Kunze's emigration has already discouraged many young writers for whom Kunze was a natural leader in the struggle for intellectual freedom. []

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AFRICA: Reactions to Owen's Trip

25X1 [] *Comments in the African media and statements by prominent black Rhodesian nationalists about British Foreign Secretary Owen's week-long exploratory swing through southern Africa have been generally negative. Much of the comment, however, is posturing by those involved in the Rhodesian situation, rather than actual reactions to the various proposals put forth by Owen.*

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[] The comments do not amount to rejection of the foreign secretary's proposals for convening a constitutional conference, but they take note of the problems the Africans see arising at a new conference. They also indicated that the front-line presidents and the principal Rhodesian nationalist leaders probably have not yet arrived at an agreed response to Owen.

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[] Discussion of the Owen mission presumably was a priority item on the agenda of the front-line presidents when they met in Luanda last weekend, but we do not yet know what decisions may have been taken. Owen himself seems to be encouraged by his discussions and is hopeful that a conference can be convened soon.

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[] There has been little comment from Africans other than those directly involved in the Rhodesian problem, a clear indication that Africa as a whole continues to let the front-line states take the lead on Rhodesia.

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[] Editorial comments in a Tanzanian government-owned newspaper raised the perennial problem of how the transfer of power to the African majority was to be accomplished, a further indication that Owen was advancing ideas rather than attempting to pin down President Nyerere on specifics. The Tanzanian radio tried to dismiss Owen's ideas as simply a new version of the proposals put forth last year by former secretary Kissinger.

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[] Tanzanian media strongly objected to Owen's proposal that the US join the UK in sponsoring a new conference. The commentary clearly shows President Nyerere's long-standing sensitivity to great power involvement in southern Africa. Although he has warmly welcomed US help on Rhodesia, he has never been totally assured that the US is not primarily motivated by the desire to protect US interests in South Africa. Nyerere also thinks US offers to help run counter to US claims of leaving African problems to African solutions.

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[] The same theme was echoed in a press conference by Joshua Nkomo and Robert Mugabe. The two Rhodesian nationalists are co-leaders of the Patriotic Front and have the backing of the front-line presidents. Mugabe said he opposes a US role at a conference. He sees no reason for "dragging parties who

were not in the dispute into the conference" and added that if this were done there would be "no right to keep other powers from coming in." He did express hope that US pressure would be applied wherever needed, but said he fears internationalizing the problem.

Other remarks of the two leaders were aimed at playing down the Owen trip and promoting their own position. They stated that the only two parties at a conference should be the Patriotic Front and the British.

The Mozambican press coverage of the trip was uncharacteristically factual and straightforward. Locally written stories were free of the hostile rhetoric that characterizes stories about Anglo-American diplomatic activity on Rhodesia. The Mozambican press is totally under the government's thumb, and its restrained treatment suggests a willingness to give the British initiative a chance.

The Nigerians were critical, questioning the need for the "useless" trip and likening this initiative to the failures of past British prime ministers to solve the Rhodesian problem.

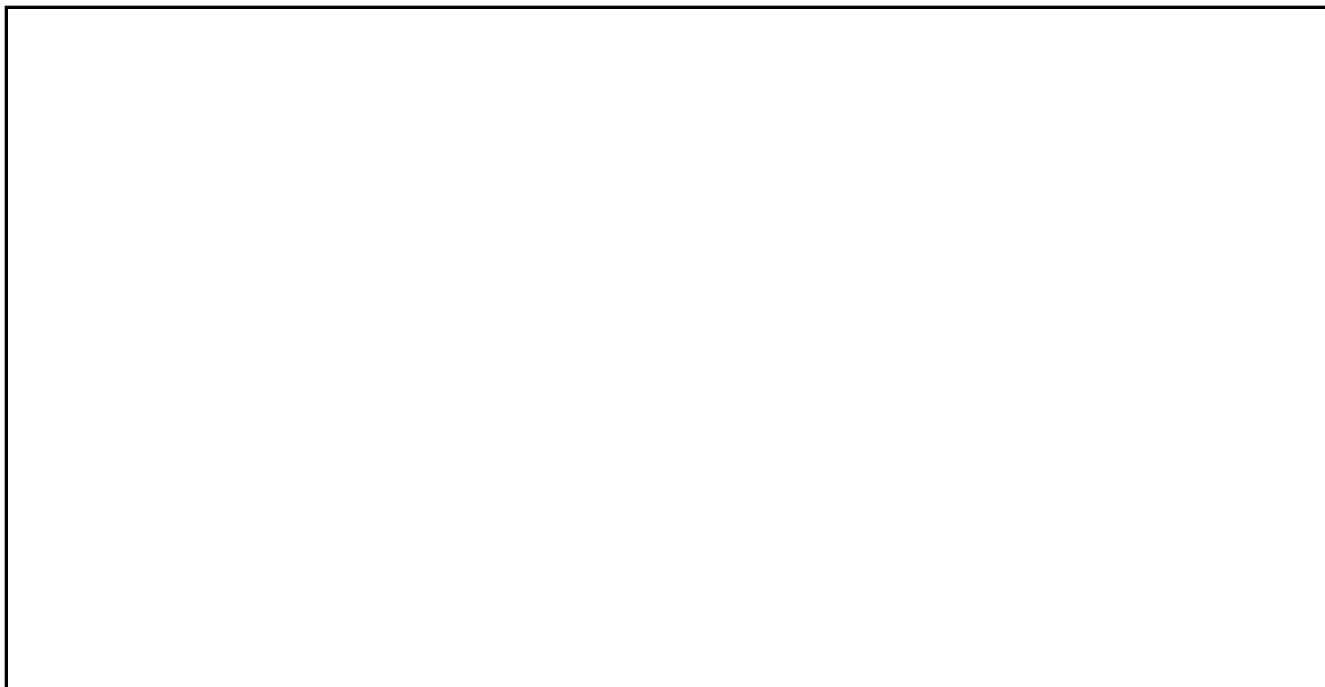
The most positive response has come from the South Africans. Foreign Minister Botha, who met with Owen, thought the initiative has "potential and perhaps a better chance of success than all the other endeavors up to now." He also reiterated the standard government statement that South Africa would be willing to play the "honest broker." He added that it is for the Rhodesians themselves to decide what constitutional form they want to accept.

In a speech in parliament on Wednesday, Prime Minister Vorster stated that the new Rhodesian initiative should not "summarily be written off" and added that failure would not be the fault of white Rhodesians.

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KENYA-TANZANIA: Relations

[Redacted] Relations between Kenya and Tanzania have not improved since the tension in January following Kenya's grounding of the financially troubled East African Airlines. Mutual recriminations are likely to intensify, but we do not expect any hostilities any time soon.

[Redacted] While discussions last month between Kenyan and Tanzanian officials aimed at easing the dispute ended on an optimistic note, each side has since charged the other with not living up to agreements reached during the discussions. Tanzania this week announced that it is permanently closing the border with Kenya and that Tanzanian and Kenyan nationals in the other's country would not be allowed to return home. Tanzania had closed the border in February in retaliation for the grounding of the airline.

[Redacted] The two countries disagree on the division of assets of the airline, compensation for other property each side has seized, and a resumption of passenger and freight service on

Lake Victoria. Tanzania apparently has been hurt by the cessation of service on the lake; Kenya is demanding more financial support from Tanzania before service is resumed. Similar demands led to the failure of the airline.

25X1 [] Propaganda is almost certain to escalate, and the two countries may even move some troops to the border area. Both countries are preoccupied with internal affairs, however, and military action is unlikely.

25X1 [] Even if the two countries resolve their dispute, close ties are unlikely because of the personal distrust between presidents Kenyatta and Nyerere and the political and economic differences between the pragmatic, Western oriented Kenyans and the militantly nonaligned and socialist Tanzanians.

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PAKISTAN: Martial Law

25X1 [] *The imposition of martial law in three Pakistani cities moves the army a step closer to a situation in which it would no longer be able to avoid intervening to end the political crisis.*

25X1 [] Two of the cities--Karachi and Hyderabad--were already under military control, although technically not under martial law. These cities in the Sind, however, are far less important politically than the third, Lahore.

25X1 [] Lahore was placed under military control in an effort to prevent violence during a general strike scheduled to begin in the Punjab today. A similar strike in Karachi on Wednesday resulted in considerable violence and the imposition of a curfew. Serious civil disorder in Lahore might have forced the military to act quickly to end the political crisis.

25X1 [] The army has sought to avoid active involvement in events in the Punjab, the home province of most members of the military. There is some doubt that the army would, in fact, take strong action against demonstrators there. If faced with such a prospect, it might well move against Bhutto instead.

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[REDACTED] Although the military is now charged with maintaining law and order in Lahore, it will not necessarily have to deal with violent demonstrations immediately. A curfew is in effect and the opposition--which has taken pains to avoid a direct confrontation with the army--could shift its efforts to other Punjabi cities. Should the opposition become convinced that the military is acting to keep Bhutto in power, however, it might well stage demonstrations to test the army's resolve.

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ARGENTINA: Subversive Investigation

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[REDACTED] *Prominent Argentine civilian and military leaders are growing increasingly concerned about apparent links between the leftist Montoneros urban guerrillas and prominent civilian businessmen, journalists, and officials of previous governments.*

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25X1 [] The most important issue appears to be the investigation of alleged connections between the Montoneros and the family and associates of financier David Graiver. This case apparently has important political implications. Hardliners in the military can be expected to see in it the justification they seek for the harsh anti-guerrilla measures they advocate. Indeed, these officers may be pressing the investigation of the Graiver case for precisely that reason.

25X1 [] The financier, who allegedly died last year, is said to have handled the vast financial assets the Montoneros accumulated in ransom from kidnappings. A number of persons connected in one way or another with Graiver have now come under suspicion; at least a few of those implicated were minor officials of either the ousted Peronist administration or a past military government.

25X1 [] At a time when the military government is claiming substantial success against the guerrilla movement, the Graiver affair will undoubtedly raise new fears that only the surface has been scratched. Because it implicates individuals heretofore not known to be involved with the left, the case could set the stage for an escalation of tactics designed to ferret out subversives among persons who otherwise might not have come under suspicion.

25X1 [] The military unity that President Videla has carefully put together in recent months does not yet appear to be in danger, but the investigation has the potential to put that consensus to an early test by emboldening right-wing officers who in recent weeks have muted their criticism. []

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